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THE OPPOSITION TO THE FEDERAL RESERVE BANK BILL¹

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IT is generally agreed that there is a pressing necessity for currency legislation in this country. The country itself thinks so, if any significance may be attached to the thousands of letters received by the banking and currency committee of the House within the last six months, or to the resolutions passed by hundreds of commercial bodies throughout the United States, calling for immediate consideration and action by Congress. From every quarter and from all classes of citizens the demand has proceeded.

For more than a quarter of a century there have been strong symptoms of an intense dissatisfaction with the prevailing national banking and currency system, and this spirit of discontent has been accentuated as from time to time the utter inadequacy of the system has been made manifest in periods of financial peril. While the existing system has operated satisfactorily under ordinary business conditions, and while the administration of the system for the fifty years of its history furnishes a high tribute to the integrity and efficiency of those concerned in its operation and oversight, its very best friend is bound to admit that in time of stress and storm it has broken down utterly. This has occurred so often, and the ensuing disaster has been so dreadful as to cause the banking experts of other nations and practical financiers everywhere to marvel at our continued failure either to adopt a better system or to correct the evils of the one we have. While we may boast that no note holder has ever lost a dollar and that the losses of depositors constitute an inconsiderable percentage of the total

¹Read by title at the meeting of the Academy of Political Science, October 14, 1913.

liabilities of the banks, nevertheless the failure of the system in acute exigencies has caused widespread business demoralization and almost universal distress. Five times within the last thirty years financial catastrophe has overtaken the country under this system, and it would be difficult to compute the enormous losses sustained by all classes of society—by the bankers immediately involved, by the merchants whose credits were curtailed, by the investors whose shops were closed, by the railroads whose cars were stopped, by the farmers whose crops rotted in the fields and by the laborers who were deprived of their wages. The system breaks down in emergencies.

For years, the business and banking mind has been casting about for a remedy, but into the story of this quarter-century of ineffectual efforts for reform I have no time to go. Suffice it to say that all political parties are now committed to a solution of this problem, and the public is demanding prompt action. The chief and everlasting curse of attempted banking and currency legislation in this country has been the proneness of public men to procrastinate. When the Vreeland-Aldrich makeshift was adopted, ex-Secretary Lyman J. Gage warned the committee and Congress that the bill was “merely a dangerous narcotic to lull the nation to sleep, from which slumber it would some day awaken in agony.” We should no longer, from habit or timidity, gravely shake our heads and insist that we “will not be hurried in this matter,” that we want further time for consideration, that we must have other hearings and additional information. Sometimes I am led to wonder what sort of information is wanted by the men who continually plead for delay. There is no theme on earth upon which information may be more readily obtained than upon the currency question; there is no topic upon which we have more authoritative expert expression; and there are few subjects upon the general principles of which expert opinions are in greater accord. If it did no other good, the National Monetary Commission, at a cost of approximately one hundred and fifty thousand dollars, assembled a great library on the subject of banking and currency reform, which for two years has been accessible to every member of Congress and to the public. Less than six

months ago the banking and currency committee of the House closed exhaustive hearings on this subject, at which representatives of every important known national group testified—big bankers and little bankers, merchants and farmers, credit men and manufacturers, currency experts, laboring men and textbook writers. There is scarcely a provision of this pending currency bill which may not be related to those hearings. They took the widest range and reflected every conceivable variety of opinion and there is absolutely no excuse for further delay.

The limited time allotted to me, therefore, I shall devote to the consideration of the three most prominent criticisms which have been made against the bill. It is urged: first, that the bill confers dangerously autocratic powers upon the Federal Reserve Board, an alleged political board, and that the banks should be given direct representation upon this board; second, that it is unjust and confiscatory to require national banks to join the system on penalty of forfeiting their national charters if they fail to do so; third, that it is unreasonable and contrary to the best banking practise to deny to banks joining a regional reserve bank the privilege of counting deposits with reserve agents as lawful reserve money.

These are the three criticisms which have been most persistently and vigorously hurled against the bill. If one accepted them with the broad generalizations and predictions of dire calamity with which they are usually made, he would be forced to conclude that the very foundations, not only of sound banking, but also of justice and business morality, were being assailed. In reality, these features of the bill contain nothing that is either new or startling.

The Federal Reserve Board is essentially a supervisory board, and clearly should not represent any section, faction or type of business interest. It should represent the public as a whole. There is only one way of securing a board of this kind, namely, to have it appointed by the President of the United States, who alone is the elected representative of the entire nation. That is the way we select the Secretary of the Treasury and the comptroller of the currency, in whom have been vested for half a century by the national banking act

many of the powers conferred by this bill upon the Federal Reserve Board. That is the way we select the interstate commerce commission, whose actual power over the railroads of the country is much greater than that which will be exercised over the banks by the proposed Federal Reserve Board.

When the Aldrich plan was before the country, the European bank which its sponsors most often cited as a helpful example for the United States and the one to which they gave more attention in their report than to all the others combined, was the Imperial Bank of Germany. The following brief description of the control of the Reichsbank is taken from an interview with two of its officers, which was published by the monetary commission :¹

[The capital] is all private ownership. . . . The government owns no shares. [In our organization] we have, so to speak, three boards : first, the Curatorium ; second, the Direktorium (president and directors) ; third, the Central Ausschuss [or Central Committee]. The Curatorium is composed of five members. The chairman is the Chancellor of the Empire. The Emperor appoints the second member, and it has been the custom to appoint the Prussian Minister of Finance. The Bundesrath [the upper house of the imperial legislature] appoint from among their own number three members, which completes the Board. . . . In the Chancellor lies supreme power although he has exercised it but once in the history of the bank.

The Direktorium . . . is appointed by the Emperor for life. It consists of nine members, seven of whom are directors, and two of whom are the president and vice-president, respectively. The president and the other members of the Direktorium are recommended by the Bundesrath to the Emperor, who makes the appointment. In the case of the directors, the advice of the Central Ausschuss is heard.

The third body . . . [namely, the Central Committee] is composed of fifteen stockholders who are elected at the annual meeting of the stockholders, together with fifteen alternates, who serve in the absence of any of the members of the board. . . . The Central Ausschuss [Committee] are made familiar with the transactions carried on by the

¹ *Interviews on the Banking and Currency Systems of England, Scotland, France, Germany, Switzerland and Italy.* Publications of the National Monetary Commission. Sen. doc. 405, 61st Cong., 2d sess., pp. 335-7. Brackets indicate explanatory matter not in original.

bank, and give their advice and recommendations to the Direktorium in reference thereto. In practise, their advice is generally carefully considered and taken. . . . The management is so constituted that the government has actual and final control through the Curatorium. The business of the bank is transacted by the second body, the Direktorium.

Here we have one of the most successful banks of Europe—a bank which possesses practically every power that the bill before Congress would confer upon the Federal Reserve Board and upon the regional bank boards combined, and which, in addition, does a regular banking business with the public, competing with other banks. It has a practical monopoly of note issue, it is the depository of government funds, it holds the bulk of the bank reserve money of the empire, and it performs for banks and public alike most of the transfer and exchange business of the country. Yet this situation is controlled almost absolutely by politically appointed boards. The administration's plan does not begin to go so far in the direction of government control, since the real banking functions in the proposed plan are entrusted to the boards of the regional banks, two-thirds of whose members are elected by bankers, the functions entrusted to the Federal Reserve Board being almost entirely supervisory functions except a few carefully guarded ones which will be exercised only in times of great emergency, and then in the searching light of publicity.

Although the members of the Federal Reserve Board will all be appointed by the President of the United States, the board will not be a political board in any narrow sense of that term. It is my earnest conviction, based upon long and serious reflection, that no man can conceive—as none has yet pointed out—how any part of this system can be perverted to political uses. In my judgment, if the United States has ever had a President ingenious enough to do this evil thing, it has never had one desperate enough and will never have one shameless enough thus to betray the confidence of the nation. I happened to be present when an eminent banker suggested such a possibility to the present occupant of the executive chair, and heard this banker promptly challenged to show how it might be done. I

shall not soon forget the emphasis with which the President of the United States declared that no man would ever be found willing to imperil his reputation or tarnish his fame by so flagrant a prostitution of his high office. The X-ray of publicity is turned full upon the operations of the Federal Reserve Board. There can be nothing sinister about its transactions. Meeting with it at least four times a year, and perhaps oftener, will be a bankers' advisory council, representing every regional reserve district in the system. This council will have access to the records of the board, and is authorized to give advice and offer suggestions concerning its general policy. How could we have exercised greater caution in safeguarding the public interest?

The second criticism of the bill relates to the so-called compulsory feature. Critics allege that it is unjust and confiscatory to compel national banks to invest part of their capital in a federal reserve bank, on penalty of forfeiture of their national charters if they fail to do so. Many of these same critics, however, have been for years criticizing the federal government for its inadequate and unscientific national banking laws, under which the country's credit system has again and again broken down, to the distress of banker, merchant, farmer and laborer alike. Now the national government is about to effect a thorough-going reform of these same defective banking laws, in the interest of the entire public. To be successful, the newly-created federal reserve banks must be strong and must inspire confidence from the start. If sacrifices are involved in joining the new system, these sacrifices should be borne by all, not merely by those bankers who are at once wide-awake and public-spirited. I ask you in all fairness, is it unreasonable for the government to say to the national banks, "If you wish to retain the name 'national,' and to enjoy the privileges which are conferred upon banks chartered by the national government, you must assume the obligations which the national government believes the dictates of sound banking require in the public interest. If you do not wish to do so, you are perfectly free to give up your federal charter and to accept the privileges and assume the obligations which state charters involve. You may have a year to decide, but if you are to remain permanently in

the national system, you must expect to play the game according to the national rules."

The real opposition to this bill, however, is not as to government control, upon which we shall never yield. It is not as to compulsory membership, which was provided in another way in the Aldrich scheme, a scheme that was unanimously endorsed by the American Bankers' Association. It is not as to the required capital subscription or the five-per-cent dividend. It is none of these. It is as to that most vital requirement of the bill, that in the future, funds on deposit in other national banks cannot be counted as legal reserve. This means an immediate loss of profits to many bankers—I say immediate, for in the long run the change will benefit bankers as well as the public—and it is the prospect of this loss that explains most of the organized opposition to the bill.

The fight is to drive us from our firm resolution to break down the artificial connection between the banking business of this country and the stock speculative operations at the money centers. The monetary commission, with more discretion than courage, absolutely evaded the problem; but the banking and currency committee of the House has gone to the very root of this gigantic evil, and in this bill proposes to cut the cancer out. Under existing law, we have permitted the banks to pyramid credit upon credit, and to call these credits reserves. It is a misnomer. They are not reserves, and when financial troubles come and the country banks call for their money with which to pay their creditors, they find it is invested in stock-gambling operations. There is suspension of payment and the whole system breaks down under the strain, causing widespread confusion and almost inconceivable damage. The avowed purpose of this bill is to cure this evil, to withdraw the reserve funds of the country from the congested money centers and to make them readily available for business uses in the various sections of the country to which they belong. This we propose to do cautiously, without any shock to the existing arrangement, graduating the operation to prevalent conditions, and extending it over a period of thirty-six months. This affords ample time to the reserve and central reserve city banks to adjust conditions

to the reserve requirements of the new system. Out of abundant caution, we have allowed actually longer time than the best practical bankers of the country have said was needed. But the complaint of these critics is not as to the time, but as to the fact. They do not want existing arrangements disturbed; they are willing to perpetuate a defective, unscientific system sanctioned by law but condemned by experience and bitterly offensive to the American people—a system which everybody knows encourages and promotes the worst description of stock gambling.

In conclusion, let me repeat: the time for action on this great question is now, while the public interest is alive, and while we can act with that caution and deliberation which is impossible when the country is in the throes of a financial panic. To those who advocate further delay in the hope thereby of securing legislation which they consider more conservative or more favorable to the banking interests, I say with all the seriousness at my command, that they are pursuing a false hope. The most vigorous opposition to this bill has been from those who want a more radical measure. If legislation now is postponed until the public is goaded by another panic, you may rest assured that the resulting legislation will be more radical—yes, far more radical—than that contained in the present bill.